

***Fee for Services
in the
Private Industry Council of Chautauqua, NY:***

A Case Study

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Fee-for-Services in the Private Industry Council of Chautauqua, New York

I. Background and Overview

The Private Industry Council of Chautauqua, Inc. (hereafter PIC) serves the rural western New York County that is bordered on its southern and western boundaries by Pennsylvania and to the north by Buffalo. The county's 1,000 square miles is home to only 140,000 residents. The primary population concentrations are in Jamestown (population 34,000) to the south, which is near the famous resort community on the shores of lake Chautauqua. The population centers in the northern section of the county include Dunkirk and Fredonia, which is the home of a state university in the New York system.

The primary economic activities in the county are agriculture and food processing, manufacturing of precision metals, wood products, and tourism. The median income is below the state average, but unemployment in the county runs above the state average.

The PIC has been operating in the county since 1978. Its current chairman, Bruce Ritenburg, President of Nog, Inc., has been with the PIC since then, and chair since 1985. At one time, Chautauqua was part of a tri-county consortium, but has long been a separate entity. Offices are maintained in Jamestown (the administrative headquarters) and Dunkirk. The PIC's executive Director, Jane Cleaver, has headed the organization since 1985; several staff have been with the PIC since then. Prior to coming to Jamestown, Ms. Cleaver was director of the PIC in South Bend, Indiana.

Formally, the PIC is a private non-profit organization. Funding for the PIC's activities come from 27 separate sources, including federal, state, and local government, private foundations, and fees for services paid by employers. Job Training Partnership Act funds for this program year totaled approximately \$2 million.

Gross revenues from fee for services were approximately \$500,000 last year. Half of these fees are generated by charging employers for **assessment and screening, pre-employment training, manufacturing skills training, and quality-related management consulting**. The rest come from the operation of the Riverside Child Development Center--a day care center for 60 children ages six weeks to five years.

Fees for the child-care center are used to support its operation and to help subsidize parents who cannot afford the full price. Last year a \$40,000 deficit from the operation of the child-care center was covered by transferring excess revenues from other fee for service activities, such as training and management consulting.

Fees for services have been charged by the PIC for nearly a decade. The services for which fees are charged are delivered by PIC staff, by consultants to the PIC, and by some local educational organizations under contract with the PIC.

II. Fees for Service Developed and Sustained

Several principal reasons explain the prominence and endurance of the fee for service concept in the Chautauqua PIC. First, the PIC's leadership--both staff and chair--believe that economic development activities must be prominent. After undertaking a comprehensive strategic planning process in 1987, PIC members agreed that their principal mission was to promote the economic well-being of the county's employers. The mission statement of the PIC reads:

" To ensure a well trained and competitive workforce, and to enhance the economic environment in Chautauqua County."

The PIC concluded that, as the county's lead human resource development agency, it should serve as the policy making entity to foster a " single, comprehensive system for workforce development--from pre-kindergarten through life-long learning."

This employer-first concept led the PIC to examine the services that employers need in order to prosper, remain in the county, and provide stable employment opportunities for the county's residents. The PIC and staff strongly endorse the high-performance workplace concept--a vision developed by some of the PIC board members, which includes several successful entrepreneurs who are aware of current thinking in human resources and management.

As part of the strategic planning process, the PIC examined the employability skills that employers need. This analysis occurred prior to the pioneering work of the Secretary's Commission on Achieving Necessary Skills (SCANS), but reached similar conclusions. The concept of a core set of employability skills broadened the PIC's focus from entry-level employees to the need for upgrading incumbent workers' skills. By doing so, all workers would be able to function in a high-performance work environment emphasizing team work, accountability, flexibility, and quality assurance.

As a by-product of this vision, the PIC developed several core services for which they would eventually charge fees. An example is **pre-employment training** for new hires. This training prepares individuals to enter the high performance workplace and contribute immediately to the productivity of the firm. This analysis also led to the PIC's emphasis on **management consulting** services, such as ISO 9000 and QS 9000 for companies. The PIC staff and its consultants provide independent audits for quality assurance and standard setting.

Emphasizing employers and economic stability does not mean that unemployed workers don't benefit, according to the PIC staff. On the contrary, the PIC's effective connections with employers have opened up opportunities for the JTPA-eligible population that would not otherwise exist. Credibility with employers is high because the PIC is rendering valued services

for which employers are willing to pay. This gives the PIC access to job openings in the companies and to other connections, such as school to work placements for youth.

An important element of the PIC's credibility undoubtedly derives from the reputation and stature of the PIC's 27 member board. It currently includes **10 chief executive officers** of some of the county's largest and most successful manufacturers and service industries. Also included are leaders from the county's public and vocational schools and the presidents of prominent unions. In short, most of the PIC's members can act on behalf of their firms or organizations.

The development of an economic development perspective helped the PIC connect with the employers and with the core concerns of the county's political leadership. The PIC's strong emphasis on business retention and expansion, which is also a high priority for the county executive and legislature, translated into tangible support. Initially the county provided \$25,000 for training programs at the PIC; now it allocates up to \$300,000 for the PIC's training and upgrading services for employers. Derived from the county property tax, these funds are channeled through the Industrial Development Agency to the PIC for use with employers. These monies subsidize the PIC-managed skills upgrading on a dollar for dollar matching basis.

County funds are an invaluable part of the fee for service equation in Chautauqua County. The county dollars enable the PIC to leverage private sector investment in training and upgrading, and confer credibility and value on their services. With most firms employing fewer than 100 people, most employers would not be able to mount skills upgrading strategies without public support. The county funds help them undertake needed activities. Even larger firms operate in a highly competitive environment so they regard the funds as essential to their ability to remain in Chautauqua County.

The endurance of fee for services is also due to the **flexibility** and **responsiveness** of the PIC in meeting the varied and evolving needs of the business community. For example, the child-care center was created after extensive discussions with prominent employers who complained about the absence of structured day care for the children of their employees. The PIC filled this void and developed a center on the ground floor of its headquarters in Jamestown.

III. Illustrations of Chautauqua's Employer Services

Employers are the primary customers of the PIC's fee-generating services. Although fees are charged to jobseekers not eligible for subsidies for specific services, such as resume development or job search workshops; most jobseekers receive these services free of charge. As noted above, the primary employer services include:

- .. **assessment and screening** (accepting applications and administering tests);
- .. **pre-employment training** (computer literacy, math, blueprint reading, gauging, total quality management, teaming building, time management, human relations and communications);
- .. **manufacturing skills training** for new and incumbent workers; and,
- .. **quality-related management consulting** (e.g. internal auditor training, process control system development, preventative maintenance programs, quality procedures and instruction).

Some illustrations of each of these services are presented below:

MRC Bearings Company, a former division of TRW, manufactures roller bearings for the airline industry and other customers. With over 1,200 employees it is one of the county's largest employers. The PIC has a long and successful relationship with MRC, providing them with a wide range of services.

For several years, the PIC has charged MRC for pre-employment training and hands-on skills training for entry-level workers. Recruited to MRC's specifications, new employers are sent to the **PIC Teaching Factory** (described below) in a building not far from the main MRC plant. There new hires receive training in print reading, mathematics, and reading. After successfully completing their classroom training, new hires spend approximately 80 hours working on machines that are identical to the ones they will eventually use at MRC. After completing training under the guidance of instructors who are MRC retirees, they transition to regular positions at MRC. According to MRC plant managers this system works well and has substantially increased the productivity of the MRC workforce and lowered turnover.

Additionally, the PIC arranges for skills upgrading for incumbent workers at the MRC. With cooperation from the local United Automotive Workers union leadership, the PIC arranges for training in statistical process control, quality assurance, and ISO 9000 standards for MRC employees. Upgrading the workforce and retraining it to work in a high performance workplace is part of the company's strategy for remaining competitive in the post-defense industry era. With declining guaranteed government contracts, MRC has been forced to compete in the global marketplace and therefore conform to international standards for quality control and price.

Managers at MRC testify to the valuable services provided by the PIC and to the importance of skills training to their overall business plan. Funding the overhaul of the plant's human resource strategies has been a true partnership. The PIC charges MRC for pre-employment training, hands on-skills training, and for skills upgrading. County funds also underwrite part of the costs of training via matching grant funds from the county's Industrial Development Agency.

Acu-Rite, Inc., a maker of precision measurement devices for the machine tool industry, needed cheaper, more reliable electronics for its optical readout product. Its supplier was shipping printed circuit boards to Acu-Rite which were overpriced and not up to quality standards.

While Acu-Rite thought they had expertise in design, engineering and marketing to build their own circuit boards, they wanted to ensure that they could consistently produce a high-quality product at a competitive price. They realized that this would require a better trained workforce.

PIC's staff met with Acu-Rite and developed a plan for recruiting and training new staff for taking advantage of the opportunity to start this new operation with quality standards. Specifically, the PIC:

“ arranged a staff development program in quality assurance-based soldering to prepare supervisors and workers for the demands of production in a new product line. The company's costs were matched by a grant secured from the county's Industrial Development Agency.

“ recruited and evaluated over 120 potential job candidates for the 10 to 30 jobs planned during the initial year of operation. Pre-screening of training candidates included tests of dexterity and color perception, as well as thorough background checks.

“ arranged for soldering skills training to be provided through the Jamestown Community College. Program costs for new hire training were covered by JTPA. Acu-Rite staff were involved in curriculum decisions and instruction.

“ arranged for on-the job training at the worksite after successful trainees were hired by Acu-Rite.

As a result, Acu-Rite reported that they gained a reliable source for the circuit boards they needed, and saved 10 percent over previous costs for this component. The firm also claims that productivity has increased by 20 percent, and workers have earned wage increase of nearly \$2.00 per hour.

Cummins Engines Company, Inc. is one of the largest employers in the county. When they decided to maintain a manufacturing plant in the region, they turned to the PIC to undertake the massive job of screening applicants to hire 100 new workers. Cummins paid the PIC to collect and screen over 2,300 applications. The PIC staff administered a wide variety of standard and company-specific aptitude and skills tests.

Over 300 individuals who met Cummins' standards were interviewed in person by the company. Eventually, the 100 new workers were hired. The company was pleased to find qualified workers and believes it saved significant time and money that otherwise would have been expended by its human resources department.

The Teaching Factory

Recently, the PIC has expanded the concept of employer skills training, which heretofore had been offered on an ad hoc basis, into a broad-based consortium of employers. Known as the Teaching Factory, the PIC has formed a consortium of business, education and economic development organization to:

“ establish a system to identify and define employer needs for occupational skills training for new hires and current employees;

“ create a continuum of hands-on training that provides for introductory training for youth, pre-hire trainees and to retraining and upgrading experienced workers;

“ provide real world of work experiences and training in safety, health, Total Quality Management and Statistical Process Control to prepare workers to contribute to high-performance work environments and for life-long learning;

“ provide access for employers to state-of-the-market equipment for demonstrations, prototype development, training and production;

“ provide opportunities for equipment vendors to demonstrate and train on their equipment.

This consortium includes employer "focus groups" in the following industries: metal, wood products, food processing, circuit board, plastics, and advanced clerical. Company needs are assessed by the county's Industrial Development Agency and the PIC.

The consortium operates a Teaching Factory--or skills training facility--in a former manufacturing plant. This facility houses hands-on and classroom training, vendor demonstrations, prototype development, and production. The Teaching Factory is managed by the PIC with input from the other members of the consortium.

IV. Pricing, Competition and Marketing

Pricing

Pricing has been a difficult issue for the PIC staff. On the one hand, they are mindful of their public sector mission--to support economic growth, which includes offering discounted prices to the county's employers. On the other hand, they are offering valuable services and need to generate income to pay the staff and consultants who provide services. Contracts and prices are individually negotiated. Circumstances may dictate different fees at one time than another.

More importantly, one firm may pay a different fee than another for the same service, based on the ability of employer to pay.

The appendix to this report includes sample contracts for fee for services drawn from the PIC's files. A couple of illustrations follow:

“ The PIC's pre-employment screening and assessment services are about \$2.50 for each application; \$2.75 for administering a TABE test; and \$8 for administering a CAPS test.

“ A work skills upgrading course in the food processing industry was priced at \$375 per student, with the employer providing 50 percent of the total expenses. The curriculum includes training in basic measuring and mathematics, industrial safety, time management, human relations and communications, and an introduction to the food processing industry.

“ A grinding training program was billed at a unit cost of \$17,000 per session, which paid for instructors, training materials and machine usage fees. Again, the employer contributed 50% of the costs.

“ A pre-hire training program in mathematics and blueprint reading was billed at approximately \$150 per employee.

“ The development of ISO 9001 standards was billed at the rate of \$42 per hour. The PIC's consultant was assigned to work a total of 200 hours with the employer to develop standards for each procedure, to draft procedures, and provide assistance in training various personnel once the procedures are developed.

Competition

The PIC has engaged in a great deal of discussion about the issue of competition. After much debate, they concluded that they would follow the general rule of cooperation first, then competition. The PIC's "statement on collaboration and competition" says:

The PIC workforce development system will seek benefits from both collaboration and competition. Collaboration will be fostered to assure quality services, to leverage limited resources, and to reduce duplication and expenditure of public dollars. Competition will be employed to better serve all customers, maximize quality and to reduce costs. Competition will be an option when the project is consistent with our mission, when we have the capacity to deliver, and when its private funding or attempts to collaborate have failed.

Fees for service has developed strongly within the PIC because the PIC is more clearly focused on employer needs than are other education and training institutions in the county. The State University campus at Fredonia and the Jamestown Community College concentrate primarily on liberal arts education, rather than entry-level skills-specific training. Similarly, the Board of Cooperative Education Services (BOCES) schools have not shown the strong interest in employer-specific training. In short, the PIC's role evolved in part because of the lack of interest on the part of other potential providers.

There is little competition from the for-profit private sector to provide the management consulting, training, or assessment and screening services offered by the PIC. Buffalo is two hours drive from Jamestown and about an hour from Fredonia. There is no concentration of alternative vendors as one might find in a more densely populated urban community. In so far as there have been complaints, they have been primarily from the Community College and the New York Department of Labor, rather than from the private for-profit sector.

Marketing

The marketing of PIC services is conducted through multiple networks. The PIC training unit, which includes consultants in quality management techniques, does a lot of outreach to private firms. The Chautauqua County Industrial Development Agency, which provides significant funding for skills upgrading programs, is another important source of leads for the staff. Finally, the PIC board, which includes many prominent employers, provides leads and endorsements.

V. Obstacles Encountered and Overcome

The PIC has encountered and overcome several obstacles on the path to creating a strong fee for service enterprise. Like many public employment and training agencies, the PIC lacked credibility in the employer community. As noted above, the quality of the PIC board helped overcome this problem to some extent, but a positive track record had to be built before the PIC's credibility was established. Consequently, the PIC "grew" the fee for service business slowly by taking on small projects, demonstrating success, and then marketing those successes to other employers.

Importantly, the PIC has hired and retained a staff that can directly provide services to employers in the quality management area. The PIC staff is a direct service provider, not merely a facilitator of others providing training or consulting services. Of course, the PIC retains consultants and subcontracts for some services, but their credibility derives in part from the in-house capability.

Resistance from the New York State Department of Labor has cropped up periodically. The PIC has been resolute, however, in sticking with its mission of serving the economic development needs of the county. In essence, the PIC has been able to convince the state to let them carry forward with the county's interpretation of the PIC's role. The PIC's private non-profit status has also been important when it comes in conflict with public agencies. While the PIC purchases a complete audit of its funds from an independent certified public accounting firm, it does not include financial information on fee for service activities in JTPA reports.

There are many ways to measure the success of the PIC in advancing its mission: the large number of repeat private sector customers for PIC services; the continuing growth in fee for service income; the organizational changes brought about by the emphasis on economic growth and fee for service; the development of a competent staff that delivers valued services. As the Executive Director puts it, "fees-for-service is part of the agency's life now." A spring 1996 survey of the county's private and public sector employers indicates a high degree of satisfaction with PIC services. Among the survey's private employers:

- 89 percent rated the quality and service of PIC staff performance as either excellent (39%) or good (50%);

- 63 percent rated the quality of PIC referrals to work experience, on-the-job training, and unsubsidized employment as either excellent (12%) or good (51%).

Not all of the success of the PIC is due to fee for services, but it has played a very significant role both in helping the PIC fulfill its mission and in shaping the perceptions and performance of the PIC in Chautauqua County.

*Fee for Services
in the
Chautauqua, NY Private Industry Council:*

**Appendix
Sample Contracts**

Agreement of Services No. 94-11

_____ St. Jamestown, NY 14701

_____ shall contract with

Private Industry Council of Chaut.. Inc./ P.O. Box 3358. Jamestown, NY 14702

Contractor

Address

During the period of _____ to _____. Amount not to exceed \$6,116.00 .
 Said Contractor shall provide: (Describe in detail)

Accept 1034 Applications	\$ 920
Screen 1034 Applications	2,486
TABE Test 400 Applicants	1,104
CAPS Test 200 Applicants	<u>1,606</u>
TOTAL	\$6,116

If less than specified numbers are tested, costs will be adjusted accordingly.

It is mutually understood and agreed that PIC, Inc. stands in relationship of an independent Contractor to, and is not an employee, servant, or agent of _____.
 PIC, Inc. shall indemnify and hold harmless from any liability, claim, demand or judgment arising from PIC, Inc.'s performance of the terms of this agreement.

It is expressly understood that either party may cancel this agreement at any time for any reason whatsoever upon thirty (30) days written notice.

COMPANY APPROVAL:

PIC, Inc. ACCEPTANCE:

By:

Title:

Date:

By:

Title: Executive Director

Date:

Agreement of Services No. 96-10
 _____ Street
 Jamestown, NY 14701

_____ shall contract with
 Private Industry Council of Chaut., Inc./ P.O. Box 3358. Jamestown NY 14702
 Contractor Address

During the period of _____ to _____. Amount not to exceed \$8,400.00 .
 Said Contractor shall provide: (Describe in detail)

PIC of Chautauqua will provide _____ **with the assistance to develop a quality system to conform to the ISO 9001 standard.**

That assistance will be in the form of:

1. Advice to the various teams that are responsible for the elements of the standards regarding what must be included in each procedure.
2. Drafting the procedures as assigned by the Quality Manager.
3. Providing assistance training various personnel once the procedures are developed.
4. Providing editing of procedures and word processing of changes to procedures.

Estimate of time

1. Assistance in drafting procedures with input from the team. A quality engineer with procedure writing experience.

20 hrs./week for 10 weeks @ \$42/hr. = \$8,400

It is understood that the hours for this contract may be adjusted based as request by to assure the accomplishment of the objectives. Any adjustment upward will depend upon availability of capacity.

_____ agrees to this contract as written provided the Chautauqua County Industrial Development Agency contributes 50% of the total amount of expenses for match (\$4,200).

It is mutually understood and agreed that PIC, Inc. stands in relationship of an independent Contractor to, and is not an employee, servant, or agent of _____.
 PIC, Inc. shall indemnify and hold harmless from any liability, claim, demand or judgment arising from PIC, Inc.'s performance of the terms of this agreement. It is expressly understood that either party may cancel this agreement at any time for any reason whatsoever upon five (5) days written notice.

COMPANY APPROVAL:

By:
 Title:
 Date:

PIC, Inc. ACCEPTANCE:

By:
 Title: Executive Director
 Date:

Agreement of Service 97-01

Corporation, , New York, 14048, stall contract with the **Private Industry** Council of Chautauqua, Inc. (PIC), 200 Harrison Street, PO Box 3358, Jamestown, New York, 14702-3358.

PIC will provide a Work Skills Upgrade Training Program designed for food processing industry. This training will be offered between **January 6 and March 31, 1997**. Amount not to exceed **\$375** per student. Said contractor shall provide:

- Basic Measuring and Math
- Industrial Safety
- Plant Science
- Time Management
- Human Relations and Communications
- Introduction to the Food Processing Industry
- Food Microbiology

Training Costs

Instructor costs: 100 hours @\$65/hours	\$6,500
Printed material - 20 students @ \$5.00 each	100
Room rental (* may not be needed)	900 *
	\$7,500

Corporation agrees to this contract as written provided the Chautauqua County Industrial Development Agency contributes 50% of the total amount of expenses for match.

Corporation agrees to complete a "Customer Satisfaction Survey". The information provided will be totally confidential and used solely for grant compliance reports and to ensure fulfillment of expectations.

It is mutually understood and agreed that PIC stands in relationship of an independent Contractor to, and is not an employee, servant, or agent of *Corporation*. PIC shall idemnify and hold *Corporation* harmless from any liability, claim, demand, or judgment arising from PIC's performance of the terms of this agreement.

Agreement of Service 97-05

_____ Street, Jamestown, NY 14701, shall contract with the **Private Industry Council of Chautauqua, Inc. (PIC)**, 200 Harrison Street, P.O. Box 3358, Jamestown, New York, 14702-3358. During the period of 01/01/97-10/31/97. Amount not to exceed **\$169,470**. Said Contractor shall provide:

The Industrial Services **Division** of PIC of Chautauqua, Inc. will provide_____ with ten (10) Grinding training programs. Training will be conducted as per training outlines developed by the Training Center staff and _____ personnel, and approved by _____.

Training Costs (per session)	
6 instructors x \$16.35 x 100 hours	\$ 9,810
Training materials	140
Materials/supplies	260
Coordinator - 50 hrs. x \$27.25	1,363
Machine time cost	<u>\$5,374</u>
Total per session	\$16,947
 Total \$16,947 x 10 sessions =	 \$169,470

_____ agrees to this contract as written provided the Chautauqua County Industrial Development Agency contributes 50% of the total amount of expenses for match agrees to complete a "Customer Satisfaction Survey". The information provided will be totally confidential and used solely for grant compliance reports and to ensure fulfillment of expectations. Payment shall be made on a monthly basis upon submission of an invoice containing contract number, dates of service, and total dollar amount due.

It is mutually understood and agreed that PIC stands in relationship of an independent Contractor to, and is not an employee, servant, or agent of _____. PIC shall indemnify and hold harmless from any liability, claim, demand, or judgment arising from PIC's performance of the terms of this agreement.

It is expressly understood that either party may cancel this agreement at any time for any reason whatsoever upon five (5) days written notice.

_____ **Corporation**
 Approval:
 By:
 Title:
 Date:

Private Industry Council of Chautauqua, Inc.
 Acceptance:
 By:
 Title: Executive Director
 Date:

The Industrial Services Division of PIC of Chautauqua, Inc. will provide _____ Corporation with one **Industrial Math and Blueprint training program. Training will be conducted as per training outlines developed** by PIC staff and _____ Corporation personnel and approved by _____ Corporation.

Industrial Math:	
\$75/employee x up to 10 employees	\$750
Blueprint Reading:	
\$78/employee x up to 10 employees	780
Total cost:	1,530
-	765 CCIDA assistance

_____ Corporation agrees to this contract as written provided the Chautauqua County Industrial Development Agency contributes 50% of the total amount of expenses for match (\$765.00). _____ Corporation agrees to complete a "Customer Satisfaction Survey". The information provided will be totally confidential and used solely for grant compliance reports and to ensure fulfillment of expectations.

It is mutually understood and agreed that PIC stands in relationship of an independent Contractor to, and is not an employee, servant, or agent of _____ Corporation. PIC shall indemnify and hold _____ Corporation harmless from any liability, claim, demand, or judgment arising from PIC's performance of the terms of this agreement.

It is expressly understood that either party may cancel this agreement at any time for any reason whatsoever upon five (5) days written notice.

Approval
By
Title:
Date:

Private Industry Council of Chautauqua, Inc.
Acceptance
By
Title: Executive Director
Date